

FIRST DIVISION

[G.R. NO. 139540, June 29, 2005]

**WHEELERS CLUB INTERNATIONAL, INC., PETITIONER, VS.
JOVITO BONIFACIO, JR., RESPONDENT.**

D E C I S I O N

CARPIO, J.:

The Case

This petition for review^[1] assails the Decision^[2] of the Court of Appeals dated 30 July 1999 in CA-G.R. SP No. 52068. The Court of Appeals dismissed the petition of Wheelers Club International, Inc. ("Wheelers") questioning the Decision^[3] dated 11 March 1999 of the Regional Trial Court of Mandaluyong City, Branch 214 ("RTC"). The RTC Decision reversed on appeal the Decision^[4] dated 5 June 1998 of the Metropolitan Trial Court of Mandaluyong City, Branch 59 ("MTC"), which dismissed the complaint for unlawful detainer of respondent Jovito Bonifacio, Jr. ("Jovito") against Wheelers.

The Antecedents

Rosario, Romeo, Virgilio, Generoso, Andres, Jovito, Jose (all surnamed Bonifacio), Zenaida B. Lafiguera, Corazon B. Calub, and Ma. Cristina B. De Guzman are the registered co-owners of a parcel of land with improvement^[5] situated at No. 83 EDSA, Mandaluyong City and covered by Transfer Certificate of Title No. 5350 ("Property").^[6]

The co-owners comprised the Board of Directors of J & R Bonifacio Development Corporation ("JRBDC").^[7]

On 5 May 1994, Bonifacio Development Associates, Inc. ("BDAI"), represented by Jaime C. Bonifacio, Sr. ("Jaime") as President and Chairman of its Board of Directors, entered into a Contract of Lease^[8] with Wheelers for a term of five years from 1 June 1994 to 31 May 1999. Under the Contract of Lease, Wheelers undertook to pay BDAI a monthly rental of P108,750 for the lease of the Property.

On 31 May 1994, JRBDC, represented by the co-owners as members of the Board of Directors and lessors of the Property, entered into a Lease Development Agreement^[9] with BDAI. Under the Lease Development Agreement, BDAI was authorized to renovate, manage, develop, and sublease the Property. The term of the agreement was also for five years from 31 May 1994 to 31 May 1999. The monthly rental was based on the actual income derived from the lease, management and development of the Property to be shared by the co-owners and BDAI.^[10]

On the same day, the co-owners executed a General Power of Attorney^[11] ("power of attorney") in favor of Jaime granting him the authority to administer the Property, renovate the building, introduce improvements and lease the Property to any person.

On 16 June 1996, the co-owners demanded that BDAI submit accounting records of all income from the Property.

BDAI, in turn, demanded that the co-owners furnish it with receipts and records of cash and check advances made by BDAI to the co-owners.

On 18 August 1996, the co-owners, as directors of JRBDC, approved a Resolution^[12] terminating the authority of "Jaime C. Bonifacio" to manage and administer the Property for BDAI's failure to submit an accounting of the income from the Property.

On 20 August 1996, Rosario Bonifacio ("Rosario"), as President and Chairman of the Board of JRBDC, wrote Jaime, as President and Chairman of BDAI, a letter terminating the "agreement with JRBDC" for non-payment of whatever was due to JRBDC under the agreement.

On 26 January 1997, the co-owners as members of the Board of Directors of JRBDC approved a Resolution^[13] appointing Jovito as the new administrator of the Property.

The following day, Rosario wrote a letter informing Wheelers about the appointment of Jovito as the new administrator of the Property and the termination of Jaime's authority to manage the Property.

On 11 February 1997, BDAI, through Jaime, wrote a letter^[14] to Rosario insisting that there was no valid reason for the termination of BDAI or Jaime's management of the Property. BDAI claimed that Rosario's failure to furnish receipts hindered its submission of complete accounting records.

On 4 March 1997, Jovito wrote to Wheelers claiming that the co-owners did not authorize the Contract of Lease between BDAI and Wheelers. Jovito gave Wheelers ten days to vacate the Property.^[15]

Meanwhile, Wheelers continued to pay BDAI the monthly rentals from February to September 1997.

On 9 October 1997, Jovito and the other co-owners, through counsel, sent a letter to Wheelers demanding payment of rentals in arrears from February to October 1997. The letter also demanded that Wheelers vacate the Property within five days from receipt of the letter.^[16]

On 21 October 1997, Jovito, as a co-owner of the Property, filed with the MTC a complaint for unlawful detainer against Wheelers, docketed as Civil Case No. 15760.
^[17]

Jovito claimed that Wheelers refused to pay him, as the new administrator of the Property, the rentals due from February to October 1997.

In its Answer dated 19 November 1997,^[18] Wheelers countered that it paid to BDAI the rentals from February to September 1997. Wheelers, however, held in abeyance payment of the rental for October 1997 because of Jovito's demand letter and Wheelers plan to consign the rental in Court.

The MTC ruled that while JRBDC does not own the Property, the co-owners who comprised JRBDC's Board of Directors signed the Lease Development Agreement signifying the co-owners' consent to the act of JRBDC. The MTC found that since the signing of the Lease Development Agreement, none of the co-owners questioned the execution of the agreement. The co-owners did not adduce any evidence to show the nullity of the Lease Development Agreement.

The MTC further ruled that one who is not a party to a contract has no personality to assail the validity of such contract, following Jovito's claim that he did not consent to the Lease Development Agreement.

In its Joint Decision dated 5 June 1998, the MTC disposed of the cases as follows:

WHEREFORE, these two ejectment cases for forcible entry and unlawful detainer against herein defendants are hereby dismissed for lack of cause of action.

SO ORDERED.^[19]

Respondent appealed to the RTC which reversed the MTC decision.

The RTC held that upon the termination of Jaime's management of the Property, Wheelers could not simply rely on its lease contract with BDAI and deny Jovito and the other co-owners their right to collect rentals. The RTC ruled that Wheelers paid the rentals at its own risk since it knew Jaime no longer had authority to receive the rentals. Citing ***Arañas v. Tutaan***,^[20] the RTC held that payment to one without authority to receive the payment is void.

The dispositive portion of the RTC Joint Decision dated 11 March 1999 reads:

FOR ALL THE FOREGOING, judgment is rendered:

xxx

II. The assailed decision of Metropolitan Trial Court of Mandaluyong City, Branch 59 in SCA MC 98-069 is hereby REVERSED and SET ASIDE, and a new one entered:

a. Ordering defendants-appellees Wheelers Club International, Inc. and all persons claiming rights under them to:

1. vacate the ground and second floors of the premises located at Bonifacio Sr. Building, No. 83 EDSA, Mandaluyong City and to

surrender possession of the same to plaintiff-appellant;

2. pay plaintiff-appellant the amount of P103,312.50 a month computed from February 1997 up to the present plus the agreed yearly increment until the premises shall have been finally vacated;
3. pay plaintiff-appellant the amount of P10,000.00 as and by way of attorney's fees;
4. pay the cost of suit;
5. [d]ismissing the counterclaims.

SO ORDERED.^[21]

Wheelers filed a petition for review with the Court of Appeals on 30 March 1999. The Court of Appeals dismissed the petition, thus:

IN THE LIGHT OF ALL THE FOREGOING, the Petition is DENIED due course and is hereby DISMISSED. With costs against the Petitioner.

SO ORDERED.^[22]

Meanwhile, Jovito filed a motion for execution^[23] of the RTC decision, which the RTC granted in its Order dated 23 April 1999.^[24]

Hence, this petition.

The Court of Appeals' Ruling

The Court of Appeals found that Wheelers signed the Contract of Lease knowing that BDAI signed such contract as administrator and developer and not for BDAI's own account. The Court of Appeals stated that Wheelers knew who the owners of the Property were and BDAI was merely acting as administrator and developer. The principals under the Contract of Lease were the co-owners of the Property and not BDAI. Therefore, Wheelers is liable to Jovito and the other co-owners for its obligations under its Contract of Lease with BDAI.

The Court of Appeals also held that "the co-owners had the power to revoke the authority of BDAI to manage and administer the property."^[25] The Court of Appeals declared:

x x x Even if the co-owners may have revoked the authority of BDAI in bad faith or in contravention of the "Lease Development Agreement" or prematurely for that matter, however, the only right of BDAI was to recover damages from the co-owners and not insist on the authority to continue managing and administering the property.^[26]

The Court of Appeals found that Wheelers' payments were made to BDAI whose authority the co-owners and JRBDC had already revoked. Hence, Wheelers' payments did not bind the co-owners. In effect, Wheelers failed to pay the rentals from February to October 1997 to Jovito as the rightful representative of the co-

owners. Therefore, Wheelers should be evicted from the Property for non-payment of rentals.

Moreover, Wheelers could no longer stay in the Property because its Contract of Lease with BDAI had already expired on 31 May 1999 while the Lease Development Agreement between BDAI and JRBDC had expired on 30 May 1999.

The Issue

The core issue in this case is:

WHETHER THE CO-OWNERS HAVE A CAUSE OF ACTION FOR UNLAWFUL DETAINER AGAINST WHEELERS FOR NON-PAYMENT OF RENTALS AND EXPIRATION OF THE TERM OF THE LEASE AGREEMENT.

The Court's Ruling

The petition has merit.

In unlawful detainer, the possession of the defendant is inceptively lawful but it becomes illegal because of the termination of his right to possess the property under his contract with the plaintiff.^[27] Hence, by instituting the unlawful detainer action, Jovito and the other co-owners admit that Wheelers' possession of the Property was lawful at the beginning. In other words, Jovito and the other co-owners recognize the legality of Wheelers' occupation of the Property beginning 1 June 1994 by virtue of the Contract of Lease it had with BDAI. In the absence of any proof to the contrary, such recognition necessarily debunks Jovito's claim that the co-owners did not authorize BDAI to lease the Property to Wheelers. This fact likewise negates Jovito's contention that the Contract of Lease between BDAI and Wheelers is void and inexistent.

The question now is, when did Wheelers' possession of the Property become without legal basis to justify the complaint for unlawful detainer?

In his complaint for unlawful detainer, Jovito claimed that Wheelers disregarded its obligation to pay rentals to the co-owners from February to October 1997. However, Wheelers' obligation to pay the rentals arose from its Contract of Lease with BDAI. Wheelers did not have a separate lease agreement with Jovito or the other co-owners. Wheelers' continued possession of the Property was by virtue of the Contract of Lease it executed with BDAI. There is no privity of contract between Wheelers and Jovito or the other co-owners. Since there was neither a written nor verbal lease agreement between the co-owners and Wheelers, Jovito is mistaken in claiming that the lease contract between the co-owners and Wheelers is on a month-to-month basis.^[28]

What is clear from the records is that the present case involves a sublease arrangement. In a sublease arrangement, there are two distinct leases: the principal lease and the sublease. These two juridical relationships co-exist and are intimately related to each other but nonetheless distinct from one another. The lessee's rights and obligations vis-à-vis the lessor are not passed on to the sublessee.